

**REPORT OF THE AUDIT OF THE
FORMER MCLEAN COUNTY
SHERIFF**

**For The Period January 1, 2002
Through January 5, 2003**



**EDWARD B. HATCHETT, JR.
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EXECUTIVE SUMMARY

AUDIT EXAMINATION OF THE FORMER MCLEAN COUNTY SHERIFF

**For The Period January 1, 2002
Through January 5, 2003**

The Auditor of Public Accounts has completed the former McLean County Sheriff's audit for the period January 1, 2002 through January 5, 2003. We have issued an unqualified opinion on the financial statement taken as a whole. Based upon the audit work performed, the financial statement is presented fairly in all material respects.

Financial Condition:

Excess fees decreased by \$5,216 from the prior calendar year, resulting in excess fees of \$33,238 as of January 5, 2003. Revenues increased by \$27,573 from the prior year and disbursements increased by \$32,789.

Report Comment:

- Lacks Adequate Segregation Of Duties

Deposits:

The former Sheriff's deposits were insured and collateralized by bank securities or bonds.

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EDWARD B. HATCHETT, JR.
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky

Honorable Paul E. Patton, Governor

Gordon C. Duke, Secretary

Finance and Administration Cabinet

Dana Mayton, Secretary, Revenue Cabinet

Honorable Larry Whittaker, McLean County Judge/Executive

Honorable Judy Stratton, Former McLean County Sheriff

Honorable Frank Cox, McLean County Sheriff

Members of the McLean County Fiscal Court

Independent Auditor's Report

We have audited the accompanying statement of receipts, disbursements, and excess fees of the former County Sheriff of McLean County, Kentucky, for the period January 1, 2002 through January 5, 2003. This financial statement is the responsibility of the former County Sheriff. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for County Fee Officials issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the County Sheriff's office prepares the financial statement on a prescribed basis of accounting that demonstrates compliance with the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statement referred to above presents fairly, in all material respects, the receipts, disbursements, and excess fees of the former County Sheriff for the period January 1, 2002 through January 5, 2003, in conformity with the modified cash basis of accounting.



To the People of Kentucky
Honorable Paul E. Patton, Governor
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Finance and Administration Cabinet
Dana Mayton, Secretary, Revenue Cabinet
Honorable Larry Whittaker, McLean County Judge/Executive
Honorable Judy Stratton, Former McLean County Sheriff
Honorable Frank Cox, McLean County Sheriff
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In accordance with Government Auditing Standards, we have also issued our report dated March 28, 2003, on our consideration of the former County Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

Based on the results of our audit, we have presented the accompanying comment and recommendation, included herein, which discusses the following report comment:

- Lacks Adequate Segregation Of Duties

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Ed Hatchett", with a stylized flourish at the end.

Edward B. Hatchett, Jr.
Auditor of Public Accounts

Audit fieldwork completed -
March 28, 2003

MCLEAN COUNTY
JUDY STRATTON, FORMER COUNTY SHERIFF
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES

For The Period January 1, 2002 Through January 5, 2003

Receipts

State Grants		\$	13,571
State Fees For Services:			30,787
Circuit Court Clerk:			
Sheriff Security Service	\$	6,862	
Arrest Fees		1,340	
Summons and Subpoenas		<u>150</u>	8,352
Fiscal Court			300
County Clerk - Delinquent Taxes			974
Commission On Taxes Collected			87,858
Fees Collected For Services:			
Auto Inspections	\$	4,125	
Serving Papers		9,930	
Arrest Fees from Other Counties		<u>180</u>	14,235
Other:			
Carry Concealed Deadly Weapon Permits	\$	1,830	
Miscellaneous		1,167	
Sheriff's 10% Add-on Fees		12,810	
Sheriff's Advertising Fees		2,240	
Advertising Costs		<u>875</u>	18,922
Interest Earned			474
Borrowed Money:			
State Advancement			<u>32,000</u>
Total Receipts		\$	207,473

MCLEAN COUNTY
 JUDY STRATTON, FORMER COUNTY SHERIFF
 STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES
 For The Period January 1, 2002 Through January 5, 2003
 (Continued)

Disbursements

Operating Disbursements:

Personnel Services-

Clerk's Salary	\$	21,212	
KLEFPF Salaries		<u>13,571</u>	\$ 34,783

Contracted Services-

Advertising	\$	1,933	
Court Security		<u>27,828</u>	29,761

Materials and Supplies:

Office Materials and Supplies	\$	2,950	
Uniforms		<u>1,920</u>	4,870

Other Charges-

Law Enforcement Expenses	\$	5,597	
Fiscal Court - Serving Papers Fees		3,230	
Cellular Phone		2,252	
Postage		2,684	
Carrying Concealed Deadly Weapon Permits		1,110	
Dues		300	
Bond		211	
Computer Supplies		89	
Miscellaneous		<u>1,019</u>	16,492

Debt Service:

State Advancement			<u>32,000</u>
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Total Disbursements			<u>\$ 117,906</u>
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Net Receipts			89,567
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Less: Statutory Maximum	\$	54,847	
Training Incentive		<u>1,482</u>	<u>56,329</u>

Excess Fees Due County for 2002			\$ 33,238
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Excess Fees Paid County Treasurer - March 11, 2003			<u>33,147</u>
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Balance Due at Completion of Audit			<u><u>\$ 91</u></u>
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The accompanying notes are an integral part of the financial statement.

MCLEAN COUNTY
NOTES TO FINANCIAL STATEMENT

January 5, 2003

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

A fee official uses a fund to report on the results of operations. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

A fee official uses a fund for fees to account for activities for which the government desires periodic determination of the excess of receipts over disbursements to facilitate management control, accountability, and compliance with laws.

B. Basis of Accounting

The financial statement has been prepared on a modified cash basis of accounting which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this basis of accounting, certain receipts and certain expenditures are recognized as a result of accrual at January 5, 2003.

The measurement focus of a fee official is upon excess fees. Remittance of excess fees is due to the County Treasurer in the subsequent year.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the County Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

Note 2. Employee Retirement System

The county officials and employees have elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a multiple-employer public retirement system that covers all eligible full-time employees. Benefit contributions and provisions are established by statute. Nonhazardous covered employees are required to contribute 5.0 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 6.41 percent for the first six months of the year and 6.34 percent for the last six months of the year.

MCLEAN COUNTY
NOTES TO FINANCIAL STATEMENT
January 5, 2003
(Continued)

Note 2. Employee Retirement System (Continued)

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65.

Historical trend information pertaining to CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report which is a matter of public record.

Note 3. Deposits

The former Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, and (c) an official record of the depository institution. These requirements were met, and as of January 5, 2003, the former Sheriff's deposits were fully insured or collateralized at a 100% level with collateral of pledged securities held by the former Sheriff's agent in the former Sheriff's name.

Note 4. Narcotics Fund

The former Sheriff maintained a narcotics fund. On January 1, 2002, the balance was \$6,721. Receipts and disbursements were \$19,497 and \$20,049 respectively. The balance of the fund as of January 5, 2003 was \$6,169. This amount was subsequently turned over to the incoming Sheriff on January 6, 2003.

COMMENT AND RECOMMENDATION

MCLEAN COUNTY
JUDY STRATTON, FORMER COUNTY SHERIFF
COMMENT AND RECOMMENDATION

For The Period January 1, 2002 Through January 5, 2003

Lacks Adequate Segregation Of Duties

The Sheriff's office has a lack of segregation of duties which we consider to be both a reportable condition and a material weakness. Due to the entity's diversity of official operations, small size and budget restrictions the official has limited options for establishing an adequate segregation of duties. The Sheriff could have implemented compensating controls to offset this internal control weakness.

Sheriff's Response:

None.

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REPORT ON COMPLIANCE
AND ON INTERNAL CONTROL OVER FINANCIAL
REPORTING BASED ON AN AUDIT OF THE FINANCIAL STATEMENT
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



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Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards

We have audited the statement of receipts, disbursements, and excess fees of the former McLean County Sheriff for the period January 1, 2002 through January 5, 2003, and have issued our report thereon dated March 28, 2003. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the former McLean County Sheriff's financial statement for the period January 1, 2002 through January 5, 2003, is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the former McLean County Sheriff's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statement and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions.

Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards
(Continued)

Internal Control Over Financial Reporting (Continued)

Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the entity's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statement. A reportable condition is described in the accompanying comment and recommendation.

- Lacks Adequate Segregation Of Duties

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statement being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe the reportable condition described above is a material weakness.

This report is intended solely for the information and use of management and is not intended to be and should not be used by anyone other than the specified party.

Respectfully submitted,



Edward B. Hatchett, Jr.
Auditor of Public Accounts

Audit fieldwork completed -
March 28, 2003

